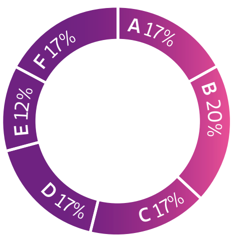
Scandinavia

Our Scandinavian business performed strongly in 2014, both in terms of profitability and growth. Our focus remains on sustaining these strong results whilst driving continuous operational improvements.

PATRICK BERGANDER
CEO Scandinavia

TYPES OF BUSINESS IN SCANDINAVIA

A Household **B** Personal motor
C Personal accident and other
D Commercial property
E Commercial motor **F** Other



£1.8bn
Net written premiums

89.4%
Combined ratio

OUR BRANDS IN SCANDINAVIA

TRYGG HANSA CODAN

OUR OPERATIONS IN SCANDINAVIA

In Scandinavia we operate in Sweden as Trygg-Hansa and in Denmark and Norway as Codan. We are the third largest insurer in Sweden and Denmark, and the sixth largest in Norway, whilst we are third overall across the region. Importantly, RSA is the only multinational insurer operating with scale in Scandinavia.

Our business is split evenly between Personal and Commercial lines and is principally directly distributed with strong agent relationships, call centre capabilities and a growing bancassurance channel. We have particular strengths in Sweden through our Motor and Personal Accident businesses, and our Danish Commercial business, while our Norwegian business is developing.

FINANCIAL PERFORMANCE

Our Scandinavian business performed strongly at an underlying level in 2014. Underwriting profits were £187m (2013: £225m) and the combined ratio was 89.4% (2013: 88.1%).

Net written premiums of £1,759m were up 3% at constant exchange (2013: £1,863m as reported; £1,713m at constant exchange), with volumes flat across the region and rate increases contributing 3% growth.

Personal premiums were up 3% with strong growth of 6% in Swedish Personal driven by Household and Personal Accident due to a combination of good new business levels and rate increases. Danish Personal premiums were down 4% as we continued our work in 2014 to return that business to stronger profitability. Norway Personal premiums were up 2%.

Commercial premiums were up 2% with growth of 5% in Denmark reflecting strong retention across the portfolio, good new business levels in Workers Compensation and good growth in Renewable Energy. Our strategic partnership in Norwegian Hospital Care insurance continues strongly, and as a result Norway Commercial premiums were up 16% in the year. In Sweden, premiums were down 4% as we continued to take actions to rationalise our Commercial portfolio and increase rate.

The Scandinavian underwriting result was a profit of £187m (2013: £225m) with a current year profit of £166m (2013: £102m) and a prior year profit of £21m (2013: £123m). After including investment returns net of discount unwind of £64m (2013: £85m), the insurance result was £251m (2013: £310m).

In Personal, underwriting profits were £162m with a combined ratio of 83.0%. This mainly reflects a strong performance in Swedish Personal Accident following product enhancements and rate actions. Scandinavia Commercial made a 2014 underwriting profit of £25m and a combined ratio of 96.9%, with good underlying performances across our Danish business and in Swedish Liability and Motor.

OUR STRATEGY
Our strategy in Scandinavia is focused on sustainable profitable returns with three key levers. These are:

1. Driving profitable growth through business targeting, expansion of distribution channels and improving our brand offering;
2. Developing market leading claims and underwriting capabilities; and
3. Driving continuous operational improvement through rigorous cost management and targeted systems and infrastructure investment.

The combined ratio in 2014 was 89.4% (2013: 88.1%). Weather and large loss experience was broadly in line with expectations. The weather ratio of 1.6% is in line with the five-year average, while large losses of 4.7% compare to a long-term average of 5.6% and in part benefit from a change in underwriting mix. The underlying current year loss ratio was noticeably improved in 2014 at 64.8%, 2.7 points better than 2013, and there were good improvements in both Sweden and Denmark. Prior year claims were 1.5%, significantly below 2013 levels but now more normalised for likely future outlook. Controllable expenses are in line with our expectations, and in 2014 we reduced FTE by 5%.

TEACHING WATER SAFETY
Trygg-Hansa's 'Baby buoy' programme teaches small children how to float in water, with the overall aim to reduce the number of drowning accidents. The Baby buoy was developed in 2013 and extended in 2014 by Trygg-Hansa together with The Swedish Life Saving Society (SLS). It is an important part of Trygg-Hansa's focus on water safety in the Swedish market, together with the sponsorship of outdoor summer swim schools and the initiative 'swim school for everyone' where people from other nationalities are trained to become swim school teachers, in order to train others in their native language.

SCANDINAVIA FINANCIAL SUMMARY

	2014 net written premiums		Underwriting result		COR
	£m	% growth[1]	2014 (£m)	2013 (£m)	2014 (%)
Personal	969	3	162	236	83.0
Commercial	790	2	25	(11)	96.9
Total	1,759	3	187	225	89.4
Sweden	956	2	138	153	
Denmark	633	1	47	63	
Norway	170	9	2	9	
Total	1,759	3	187	225	

Notes:
1. At constant exchange.

OUTLOOK

We expect the Scandinavian P&C markets to grow in line with local GDP growth, and we target top line performance broadly in line with the market. Our focus is on sustaining strong Personal lines results in Sweden and improving Commercial lines profitability; achieving significant cost improvements in Denmark; and focusing on profitable growth in Norway.

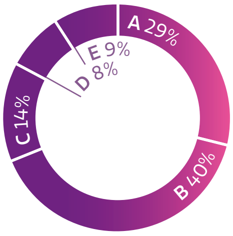
Canada

2014 has been a challenging year for our Canadian business with adverse weather conditions. However, the underlying performance of our business remains supportive of improved future results.

ROWAN SAUNDERS
President & CEO, RSA Canada

TYPES OF BUSINESS IN CANADA

A Household **B** Personal motor
C Commercial property **D** Liability
E Other



£1.5bn
Net written premiums

98.0%
Combined ratio

OUR BRANDS IN CANADA

JOHNSON WA

OUR OPERATIONS IN CANADA

In Canada we are the third-largest insurer, establishing our market position through a combination of strategic acquisitions and organic growth. We are a national insurer, operating across all provinces with a broad multiproduct, multidistribution offering. The market is stable and consolidating with the top 10 insurers accounting for around 65% market share.

Our portfolio is well balanced with Personal lines accounting for around 70% and Commercial around 30%. We have leading positions in Affinity, Travel and Marine. Approximately half of our Personal business is directly distributed through brokers under the RSA brand, and half is distributed through affinity partnerships under the Johnson brand.

FINANCIAL PERFORMANCE

After a record bad year for weather events in Canada in 2013, adverse weather conditions continued into the first quarter of 2014. As a result, 2014 has been challenging for our Canadian business. However, the underlying

OUR STRATEGY

In Canada our strategy is to drive sustainable profitable growth in our targeted segments. We focus on improving our revenue capabilities through enhanced pricing, risk selection and sales capabilities; investing in our technology capabilities and developing industry-leading digital customer offerings; and robust management of our cost base.

performance of our Canadian business remains supportive of improved future results.

Net written premiums in Canada were down 3% on a constant exchange rate basis to £1,510m (2013: £1,755m as reported; £1,553m at constant exchange) with 5% volume reductions partly offset by 2% rate growth.

Personal premiums were down 2%, with a 6% reduction in Motor partly offset by growth of 5% in Household. Household premiums included double-digit rate increases (on renewal business) as the market responded to the weather events of 2013 and early 2014; volumes were down 3%. In Motor, premium reductions reflected the exit of certain broker relationships, lower new business and rate in Ontario, and competitive conditions in Quebec.

In Commercial, premiums were down 5% driven mainly by the actions we have been taking on the portfolio, particularly where we have been re-underwriting or exiting poorer performing accounts. Property reductions of 5% are mainly driven by underwriting actions taken in Quebec, and Liability reductions of 10% are due to the exit of unprofitable programmes and market-leading rating action.

Underwriting profit was £30m (2013: £13m loss) with a current year loss of £8m and a prior year profit of £38m. The combined ratio was 98.0% (2013: 100.7%). After including investment returns of £77m (2013: £93m), the insurance result was £107m (2013: £80m). Ongoing balance sheet work across the Group has included in Canada a more granular segmentation of the portfolio for reserving purposes. This has led to a reallocation of reserves (as reported in August) to better reflect the risk profile of the book, and a £19m release of margin.

DRIVEN TO DISTRACTION

Motoring research by RSA Canada showed that distracted drivers are three times more likely to be in an accident than attentive drivers and that 20–30% of all collisions involve driver distraction. We wanted people to think about what they are doing behind the wheel. So we surveyed drivers across the country, and despite increased attention on distracted driving in almost every province, drivers are simply not getting the message to pay attention to the road.

Our survey found that almost every Canadian driver has witnessed other drivers talking on the phone, and 80% have witnessed drivers texting. Yet only 22% admit to talking and 13% admit to texting while behind the wheel. Despite public awareness campaigns, and in Ontario increased fines and demerit points for those convicted, distracted driving is still a huge issue.

As a result, RSA Canada made these findings public and initiated a campaign of driver advice ahead of public holidays in May 2014. The research and campaign was one of RSA Canada's most successful in terms of media coverage, with exposure in over 250 publications, the advice reaching a potential audience of 26 million people.

The level of weather losses, although lower than 2013, was higher than trend, impacting profitability. The weather loss ratio of 5.0% for the year compares to a five-year average for our Canadian business of 4.3%. Personal Household and Motor were both affected by the weather, with Motor experiencing elevated claims frequency as a result of severe driving conditions in the first quarter.

In Commercial, the reallocation of reserves in the first half resulted in an increase in Liability reserves and a release in Motor, impacting their respective results. Property profitability remains under pressure given a highly competitive market, with adverse weather and large loss experience impacting results. At a total Canadian level, the large loss ratio was 3.6% in 2014 compared to a five-year average of 3.0% and a 2013 ratio of 3.3%. The current year underlying loss ratio was 62.8% (2013: 62.1%).

CANADA FINANCIAL SUMMARY[1]

	2014 net written premiums		Underwriting result		COR
	£m	% growth[2]	2014 (£m)	2013 (£m)	2014 (%)
Personal	1,039	(2)	11	29	99.0
Commercial	471	(5)	19	(42)	96.0
Total	1,510	(3)	30	(13)	98.0

Notes:
1. During 2014 we sold Noraxis, a brokerage contained within our Canadian business. The numbers above exclude Noraxis.
2. At constant exchange.

OUTLOOK

2014 has been a challenging year for RSA in Canada. However, we anticipate the business returning to better performance patterns, subject to volatile items such as weather trends. Our focus will be on delivering operational improvement, particularly underwriting and claims improvements, process simplification and modernisation of technology and infrastructure.

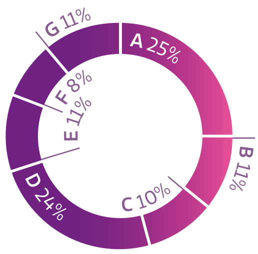
UK[1] and Ireland

In the UK, we have made good progress in 2014 with underwriting and portfolio actions as well as operational improvements. In Ireland, it has been a further difficult year as we continue our recovery process.

STEPHEN LEWIS
CEO, UK & Western Europe

TYPES OF BUSINESS IN THE UK

A Household **B** Personal motor **C** Pet
D Commercial property **E** Liability
F Commercial motor **G** Marine and other



£2.6bn
UK net written premiums

99.5%
UK combined ratio

OUR BRANDS IN UK AND IRELAND

MORE TH>N® RSA
123.ie

OUR OPERATIONS IN UK AND IRELAND

In the UK, we are the second largest Commercial insurer with key positions in Property, Motor, Liability, and Marine, and exposures across the SME, Mid-Market and Global Specialty customer segments. We operate across the key UK market centres, as well as six European locations. We are a leading international Marine player through the London markets.

We also have strong positions in the UK Personal Household, Motor, and Pet markets. We have a direct insurance offering through our MORE TH>N brand, and a broker portfolio focused on profitable segments. We also have affinity relationships with some of the major UK retailers.

We are a leading player in Ireland with particular strengths in Household insurance and in direct sales through our 123.ie business.

UK FINANCIAL PERFORMANCE

In the UK, we have made progress with management action on pricing and underwriting that included both planned exits and focused growth. Adverse weather in the first quarter together with reserve additions in Commercial have affected profitability. However, expenses are coming down and the good progress made with cost reductions in the first half has continued into the second half, including a reduction of over 500 (7%) FTE during the year.

At a headline level, UK premiums of £2,569m were down 15%. However, premiums excluding Motability were down 6% with Personal down 6% and Commercial down 6%.

1 Excluding Legacy

Household premiums were down 3% reflecting competitive conditions and a softening rate environment. In Personal Motor, premiums were down 26% as a result of our portfolio actions and pricing discipline, although the steep declines seen in the first half have now begun to slow. Excluding planned exits, motor premiums were down 11%. In 2014, we launched our MORE TH>N Smart Wheels 'black box' telematics product aimed at young drivers, and MORE TH>N Drive, an app that allows drivers to track their driving behaviour, which are showing promising growth. Pet premiums were up 16% although the underlying movement after removing prior period accounting premium adjustments was 9%, mainly driven by rate increases.

Across Commercial we have maintained underwriting discipline in a competitive market and a soft rate environment. Reported premiums were down 22% to £1,393m, primarily driven by a reduction in Motability premiums as a result of our new contract terms which took effect from 1 October 2013 (Motability net written premiums in 2014 were £57m versus £351m in 2013) and a reduction in Marine mainly due to adjustments to prior year premiums after a change in accounting methodology. We ceased writing Specialty Lines business in Germany with effect from 1 October 2014, but continue to actively write and grow our Marine business there. SME, one of our areas of focused growth, grew 9% over last year and targeted activity in Engineering delivered 4% growth.

The UK underwriting result was a profit of £15m (2013: £13m). The current year profit of £17m represents our strongest current year result in the UK since 2005, and includes a Personal profit of £26m and a Commercial loss of £9m. The prior year loss of £2m includes a loss of £25m in Commercial and a profit of £23m in Personal.

OUR STRATEGY

In UK Commercial, our strategy is to grow the business profitably, focusing on our revenue generating capabilities and expense reductions. In UK Personal we will continue to focus our business on our target segments while significantly reducing our cost base and improving our capabilities. In Ireland we have some important market positions upon which future success can be built, but we will need to invest to achieve market-leading capabilities in pricing and data, underpinned by systems simplification.

SUPPORTING SOCIAL ENTERPRISE

Our CSR strategy seeks to deliver commercial and societal benefits. To meet this objective and in line with our Commercial strategic focus on SMEs, we have established a unique partnership with School for Social Entrepreneurs (SSE) that's delivering positive impacts for our business, our people, SSE, entrepreneurs and ultimately our communities.

SSE supports individuals to set-up businesses with a social purpose. By taking part in SSE's programmes, social entrepreneurs are able to transform their talent into sustainable solutions to poverty and disadvantage. Over the three-year partnership we are providing bursaries to fund social entrepreneurs through the SSE Fellowship Course. We are also providing senior RSA mentors to support the students. Graduates of the Fellowship Course are 20% more likely to survive for five years than traditional UK business.

In 2014, this partnership won the Chartered Insurance Institute Public Interest Awards, 'Best corporate social responsibility initiative'.

UK AND IRELAND FINANCIAL SUMMARY[1]

	2014 net written premiums		Underwriting result		COR
	£m	% growth[2]	2014 (£m)	2013 (£m)	2014 (%)
UK Personal	1,176	(6)	49	44	95.9
UK Commercial	1,393	(22)	(34)	(31)	102.1
Total UK	2,569	(15)	15	13	99.5
Ireland	295	(5)	(107)	(220)	132.3

Notes:
1. During 2014 we reclassified UK Legacy business as 'non-core'. It has therefore been excluded from the UK figures above.
2. At constant exchange.

Household continued to perform strongly with a £65m profit despite adverse weather in the first quarter, while a £7m loss in Motor reflected a highly competitive market but nevertheless a significant improvement from the 2013 loss of £41m. Pet profitability was disappointing due to higher than expected claims inflation, for which we have implemented rating and indemnity actions to address.

The UK Commercial underwriting loss of £34m is driven by the adverse development of the prior year Professional Indemnity book (£46m) which we reported on at both H1 and Q3. Our Property book suffered an underwriting loss of £8m driven by heavy weather losses following storms in January/February and also in June in Europe, plus marginally elevated large losses. Commercial Motor produced a significantly improved COR of 94.7% reflecting better performance across the book.

The UK combined ratio was 99.5% (2013: 99.6%). The weather ratio of 3.8% was 0.8 points higher than 2013 and 0.5 points higher than the five-year average for the UK business. The large loss ratio of 12.9% was 0.3 points lower than 2013 and 2.0 points lower than the five-year average. The current year underlying loss ratio improved by 1.2 points against the same period last year to 49.0%.

IRELAND FINANCIAL PERFORMANCE

In Ireland, it has been a difficult year for RSA in recognising further losses for events announced in 2013 and beginning the recovery process. The 2014 underwriting loss was £107m, recorded as a current year loss of £62m and a prior year loss of £45m.

No substantive new issues were found in 2014, however the cost of remediation, reserve strengthening and the level of required underwriting improvement has been greater than that expected at the start of the year.

The current year loss of £62m reflects the ongoing impact of the issues identified in 2013, in particular inadequate pricing on pre-remediation business that came through in earned premiums. Once claims reserving was more fully remediated during 2014, it became apparent that in key portfolios loss ratios were higher than expected and loss patterns have remained volatile as data is cleansed and new patterns established. Pricing and underwriting action taken in 2014 should earn through into significant further loss ratio improvement in 2015.

The 2014 weather ratio of 5.8% was in line with long-term trends but marginally worse than plan, while the large loss ratio of 3.4% was 1.1 points worse than trend.

The prior year loss of £45m reflects a combination of updated reserving judgements from 2013 events in light of the latest development experience, and some specific factors including the remediation of a specific delegated authority scheme, changes to reinsurance retentions, and the impact of lower discount rates following a High Court ruling in December.

Our remediation work is ongoing, and we remain confident that the actions we are taking will restore the business to profitability.

The Irish executive management team has been completely restructured and we have made good progress in filling critical management vacancies with a new CEO, CFO, COO and Chief Underwriting Officer now in place.

Cost reduction plans are in place, and underwriting actions should improve current year underwriting performance to a profit in 2016. Reserving actions are now largely complete, although some 2015 impact remains possible.

On pricing we have applied strong rate increases during 2014 in key lines requiring remediation, with year-on-year rate increases of c.25% in Motor and c.15% in Liability. As a result of this focus, premiums for the year were down 5% at constant exchange.

During 2014, we have undertaken an impairment review of the carrying value of Irish goodwill and intangible assets. As a result we have written down £44m relating to goodwill and £17m relating to software and customer lists. This leaves £54m of goodwill and intangible assets in the Irish business. In addition to this we have also written down our Irish deferred tax asset by £8m leaving a remaining tax asset by £8m leaving a remaining tax asset of £5m.

OUTLOOK

In the UK, continuing improvements in our core trading performance together with ongoing cost actions give us confidence as we look out to 2015. We target improving profitability and a return to modest top line growth.

In Ireland, our goal remains to return the business to profitability in 2016 through underwriting improvement and cost reduction, and from there to return to greater than cost of capital returns in the future.

UK Legacy

Our UK Legacy portfolio comprises exposure to asbestos and other long term liabilities. Our exposure to these claims arises from Employers and Public Liability policies written over the past 50 years. While these account for the majority of liabilities, the portfolio also includes a variety of London Market related legacy liabilities.

The UK Legacy underwriting result for 2014 was a loss of £48m (2013: £19m loss) and was primarily driven by a combination of asbestos, deafness and 'abuse' reserve additions. The asbestos additions are mainly due to revisions to estimates of reinsurance recoveries to reflect the latest experience of claims across accident years.

At 31 December 2014, UK Legacy net reserves were £1bn (with a discounted value of £0.6bn).

ASBESTOS

Asbestos technical provisions (before discounting) include £829m (31 December 2013: £831m) for asbestos in the UK comprising £778m (31 December 2013: £778m) for UK risks and £50m (31 December 2013: £52m) for US risks written in the UK. As in previous years, and as a standard part of our reserving practices, these asbestos provisions have been reviewed by external consultants. These provisions can be analysed by survival ratio.

Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue. The table below outlines the asbestos provisions as at 31 December 2014 analysed by risk and survival ratio.

One year average ratios are inherently more volatile and impacted by the size and timing of payments or notifications in the year, with the three-year average providing a more stable benchmark. For UK risks written in the UK, the paid survival ratios have remained stable, with the incurred survival ratio impacted by changes in the level of notifications from year to year. We continue to monitor notification levels closely. For US risks written in the UK, the remaining reserves are relatively small in total and will therefore be particularly sensitive to changes in notifications or the size and timing of claims payments and settlements during the year.

ASBESTOS RESERVES

	Total	UK risks written in the UK	US risks written in the UK
Provisions in £m			
Net of reinsurance	**829**	778	50
Net of discount	**506**	465	41
Survival ratios (Gross of discount) – On payment			
One year	**29**	32	12
Three-year average	**30**	32	14
Survival ratios (Gross of discount) – On notifications			
One year	**25**	25	18
Three-year average	**23**	25	10

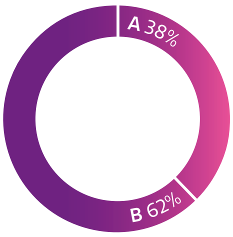
Latin America

In Latin America, the markets we operate in continue to be fundamentally attractive, driven by growing insurance penetration. Performance in 2014 reflected competitive conditions and the earthquake in Chile in April.

HILARIO ITRIAGO
CEO, Latin America

TYPES OF BUSINESS IN LATIN AMERICA

A Personal B Commercial



£0.7bn
Net written premiums

100.3%
Combined ratio

OUR OPERATIONS IN LATIN AMERICA

RSA is a top 10 international insurer in Latin America. We are geographically diversified with leading positions in Chile (no. 1 market position), Argentina (no. 7), and Uruguay (no. 2). We have a leading niche position in the Brazil Marine market, and businesses in Mexico and Colombia. Although economic growth in the region has slowed, the non-life insurance market continues to offer attractive growth prospects.

Our business is 38% Personal and 62% Commercial. Around 70% of our business is distributed through brokers with the remainder predominantly through affinity partnerships. We are a leading affinity insurer in the region with a strong track record in the finance, retail and motor segments.

FINANCIAL PERFORMANCE

Net written premiums in Latin America were up 4% on a constant exchange rate basis to £690m (2013: £837m as reported; £662m at constant exchange) with 1% volume growth and 3% rate growth. The impact of foreign exchange has been significant, with premiums down 18% at reported exchange rates.

There was strong growth in Argentina of 32% driven by the high inflation environment, and growth of 15% (or £6m) in Uruguay. Brazil premiums were up 2% in a competitive market. We have also taken action to restructure the business which includes the exit of Risk Managed Property, Construction and Engineering and Liability. In Chile premiums were flat due to soft market conditions and actions taken on our Motor portfolio.

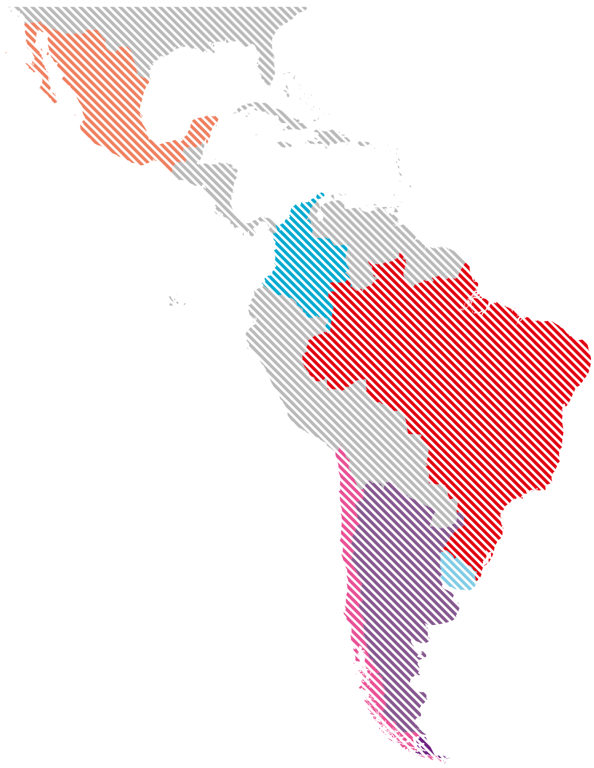
During the year we have restructured our business in Colombia. We have announced the exit of Personal and Commercial Motor, and intend to pursue profitable growth in non-Motor Commercial lines and affinity schemes. As a result, premiums were down 31% in the year.

The underwriting loss of £2m includes £10m in respect of the Chile earthquake in April (a further £8m is included in the Group Re result bringing the total event cost to £18m) and several other large losses. The large loss ratio of 3.6% is 1.2 points higher than the five-year average, whilst weather losses of 0.3% are better than the five-year average of 0.9%.

OUTLOOK

In Latin America, the markets we operate in continue to be attractive on a fundamental basis, though competitive, driven by low insurance penetration and a growing middle class across the region. Given the softer economic outlook, we anticipate growth continuing at a more subdued pace than historical levels, with improving profitability targeted.

OUR FOOTPRINT IN LATIN AMERICA



LATIN AMERICA FINANCIAL SUMMARY

	2014 net written premiums		Underwriting result		COR
	£m	% growth[1]	2014 (£m)	2013 (£m)	2014 (%)
Chile	166	–	(4)	17	102.4
Argentina	210	32	10	(1)	94.9
Brazil	119	2	(13)	3	110.9
Mexico	88	(4)	2	3	97.2
Colombia	61	(31)	1	(1)	99.1
Uruguay	46	15	2	(1)	94.7
Total Latin America	690	4	(2)	20	100.3

Notes:
1. At constant exchange.

OUR STRATEGY

Our strategic aim is to become a sustainable player delivering attractive returns on capital in our chosen markets supported by initiatives across three key areas:

1. Developing our customer and distribution relationships;
2. Maintaining technical underwriting discipline; and
3. Maintaining tight control on costs across the region together with improvements to our technology capabilities.